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PATENT

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Application of: Craig FARR

Serial No.: 10/812,902 Group Art Unit: To Be Assigned

Filed: March 31, 2004 Examiner: To Be Assigned

For: METHOD AND SYSTEM FOR PROVIDING DIVIDEND ENHANCED CONVERTIBLE STOCKS WITH ACCELERATION TRIGGERS

DECLARATION OF JOHN M. HARRINGTON

Mail Stop Petition
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

Sir:

John M. Harrington declares as follows:

1. That he is attorney for the Applicant in the above-identified application; that he is a member of the firm of Kilpatrick Stockton LLP with an office located at 607 14th Street, N.W., Washington, DC 20005; that he is a member of the Forsyth County Bar; is a registered Patent Attorney, Registration No. 25,592; and that he makes this declaration in support of Applicant's Petition to Make Special in this application based on good faith information and belief.

2. The subject matter of the above-identified application relates to a financial instrument and a method for offering the financial instrument, an embodiment of which proposes a fixed income instrument having a predetermined remarketing date for remarketing the fixed income instrument, a coupon for the fixed income instrument, a forward purchase contract to purchase at least one equity share

at a predetermined future contract date, and a first acceleration trigger clause to designate a first date to remarket the fixed income instrument prior to the predetermined remarketing date upon a happening of a first predetermined event.

3. All of the claims presented in this application are believed to be directed to a single invention, or if the Office determines that all the claims presented are not obviously directed to a single invention, an election will be made without traverse as a prerequisite to the grant of special status.

4. A pre-examination search directed to the invention as claimed in this application was made:

(a) in the United States Patent and Trademark Office in Class 705, subclasses 1, 35, 36, 37, 38, and 39; and

(b) in the following electronic databases for non-patent literature: Business & Industry, ABI/Inform, Gale Group PROMT, Gale Group F&S Index, Dialog Global Reporter, Gale Group Trade & Industry DB, Finance & Banking Newsletter, Financial Times Abstracts, Wall Street Journal Abstracts, DELPHES Eur Bus, Accounting & Tax DB, Gale Group Globalbase, Gale Group New Prod. Annou., Business Week, McGraw-Hill Publications, American Banker Publications, Bond Buyer Full Text, Business Dateline, and Gale Group Newsletter DB.

5. The pre-examination search uncovered the following references deemed most closely related to the subject matter encompassed by the claims, copies of which references are attached if said references are not already of record:

U.S. Pat. App. No. 2002/0133442 A1

U.S. Pat. App. No. 2003/0093375 A1

U.S. Pat. App. No. 2003/0130941 A1

U.S. Pat. App. No. 2003/0225656

U.S. Pat. App. No. 2004/0039669 A1

U.S. Pat. App. No. 2004/0098327 A1

U.S. Pat. App. No. 2004/0133494 A1

Petersen, J.E., "Innovations in Tax-Exempt Instruments and Transactions", *National Tax Journal*, Vol. 44, No. 4, PP. 11-28, December 1991.

Wolf et al., "Certain legal aspects of secondary market municipal derivative products", *Business Lawyer*, Vol. 49, No. 4, PP. 1629-1689, August 1994.

Freeman et al., "Tax consequences of business and investment-driven uses of derivatives", *Taxes*, Vol. 72, No. 12, PP. 947-994, Dec 1994.

"Raising debt at a cost below prevailing market rates", *International Tax Review*, PP. 21-40, June 2000.

Wallace et al., "Do You Have Derivatives Lurking in Your Hybrids?", *Bank Accounting & Finance*, Vol. 13, No. 3, PP. 35+, Spring 2000.

Ricks et al., "FSA forgoes Conventional Wisdom in Characterizing A Remarketing Payment Under a Callable/Puttable Bond", *The Tax Adviser*, Vol. 33, No. 3, PP. 168-170, March 2002.

6. The following is a detailed discussion of the references pointing out with the particularity required by 37 CFR 1.111(b) and (c) how the claimed subject matter is patentable over the references:

U.S. Pat. App. No. 2002/0133442 A1 (Laycock) discloses an instrument consisting of a claim on company assets, such as a bond, that converts automatically to a lower level of seniority, such equity, on the occurrence of an operating problem (see, e.g., Laycock, p. 1, par. 0003), including write-downs, loss of recourse, restitution, legal liability, regulatory and compliance, or loss or damage of assets. (See, e.g., Laycock, p. 1, pars. 0010-0016). Thus, while Laycock teaches a bond that automatically converts to

equity on the happening of an event, Laycock fails to teach or suggest an instrument with a predetermined remarketing date, a forward purchase contract, and an acceleration trigger that redesignates the remarketing date to an earlier date, as claimed in the present application.

U.S. Pat. App. No. 2003/0093375 A1 (Green) discloses a computer system for creating, issuing, and servicing convertible or exchangeable financial instruments based on long-term zero coupon notes (LYONs), cash pay or partial cash pay convertible or exchangeable bonds issued at a discount, debt instruments, preferred instruments, trust preferred instruments, warrants, insurance contracts and derivatives thereof, or securities backed by any of them. See, e.g., Green, p. 1, pars. 0007-0010. Although Green discloses use of financial instruments, such as LYONS, PRIDES, and PRIZES, Green fails to teach or suggest a financial instrument consisting of a fixed income instrument with a coupon and predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

U.S. Pat. App. No. 2003/0130941 A1 (Birle) discloses a convertible financial instrument that provides incentives to holders to keep the instrument outstanding, such as contingent payments (contingent interest or principal, preferred distributions, or dividends) to the holder when the trading value of the convertible instrument exceeds a pre-determined value or when the price of another financial instrument (underlying or reference security) is below, higher than, or equal to a pre-determined value. See, e.g., Birle, p. 2, 3, par. 0021. Therefore, while Birle discloses use of short or long-term zero coupon notes ("LYONs"), cash-pay or partial-cash-pay convertible bonds, debt instruments, preferred instruments, trust preferred instruments, warrants, insurance contracts, and derivatives thereof, or securities backed thereby, Birle fails to teach or suggest a financial instrument consisting of a fixed income instrument with a coupon and predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the

remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

U.S. Pat. App. No. 2003/0225656 (Aberman) discloses issuance by a REIT of preferred stock associated with a forward purchase contract to purchase common stock at a predetermined future time, the preferred stock being exchangeable for capital stock on the occurrence of a predetermined event. See, e.g., Aberman, p. 2, par. 0021. According to Aberman, the forward contract is backed by a pledge of the preferred stock to satisfy the investor's obligation under the forward contract, and an investor can participate in a remarketing of his preferred stock such that the cash proceeds from remarketing (if successful) can be used to satisfy the investor's obligation. See, e.g., Aberman, p. 4, pars. 0057-0058. In any event, the present application claims priority to Applicant's U.S. Provisional Application No. 60/458,419 filed March 31, 2003 (See, e.g., Spec., p. 1, par. 0001 and Applicant's Declaration filed in this application), which discloses the subject matter claimed in the present application, and the Aberman reference was filed May 14, 2003 and is therefore not prior art under 35 U.S.C. §102 or 35 U.S.C. §103.

U.S. Pat. App. No. 2004/0039669 A1 (Jones '669) discloses a security issued by an issuer consisting of a debt of the issuer and an associated warrant to purchase a fixed number of equity shares. See, e.g., Jones '669, p. 1, par. 0017. According to Jones '669, the security may also obligate the issuer to cause remarketing of the debt by the expiration time of the warrant and/or to cause remarketing of the debt on the occurrence of an acceleration event related to the market value of the security. See, e.g., p. 2, par. 0028-0031. Thus, while Jones '669 discloses a security that includes debt of the issuer and an obligation to cause remarketing of the debt by the issuer on expiration of an associated warrant or an acceleration event, instead of a forward purchase contract (i.e., an obligation) to buy shares of the issuer's stock, as claimed in the present invention, the security of Jones '669 consists of debt and a warrant (i.e., a right but not an obligation) to buy shares of the issuer's stock. Accordingly, Jones '669 fails to teach or suggest a financial instrument consisting of a fixed income

instrument with a coupon and predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

U.S. Pat. App. No. 2004/0098327 A1 (Seaman) discloses a convertible financial instrument including a bond with a maturity date and an option to buy shares of the issuer's stock exercisable within a specified time after the value of the stock reaches a target value, and exercise of the option does not extinguish the bond. See, e.g., Seaman, p. 1, par. 0008. Accordingly, while Seaman discloses a financial instrument that includes a fixed income bond redeemable at a predetermined maturity date and an option to purchase shares of the issuer's stock, Seaman fails to teach or suggest a financial instrument consisting of a fixed income instrument with a predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

U.S. Pat. App. No. 2004/0133494 A1 (Jones '494) discloses issuing a "unit" consisting of a purchase contract portion identifying a settlement price to be paid on a settlement date by the holder in exchange for a number of shares of the issuer's stock having a predetermined value and a note portion identifying a maturity date, an initial principal amount, a remarketing date, and a contingent conversion feature identifying circumstances under which the conversion right can be exercised (a stock price above which the conversion right can be exercised). See, e.g., Jones '494, p. 1, pars. 0004-0007; p. 2, par. 23. In any event, the present application claims priority to Applicant's U.S. Provisional Application No. 60/458,419 filed March 31, 2003 (See, e.g., Spec., p. 1, par. 0001 and Applicant's Declaration filed in this application), which discloses the subject matter claimed in the present application, and the Jones '494 reference claims priority to U.S. Provisional Application No. 60/493,187 filed August 7, 2003

and U.S. Provisional Application No. 60/493,558 filed August 8, 2003 and is therefore not prior art under 35 U.S.C. §102 or 35 U.S.C. §103.

The "Innovations in Tax-Exempt Instruments and Transactions" article (Petersen) discusses tax-exempt bonds. According to the article, a majority of such bonds consist of serial maturities with different interest coupons. The article also discusses changing demand for tax-exempts, determining tax-exempt interest rates, structuring tax-exempt debt, credit enhancements for tax-exempt debt, and the prospective market for tax-exempt debt. See, e.g., Peterson, p. 13-15 and p. 24-25. Thus, instead of financial instruments consisting of fixed income instruments with predetermined remarketing dates and forward purchase contracts, the Petersen article focuses on tax-exempt bonds and consequently fails to teach or suggest a financial instrument consisting of a fixed income instrument with a predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

The "Certain legal aspects of secondary market municipal derivative products" article (Wolf) summarizes legal issues under federal law associated with municipal derivative transactions in the secondary market and focuses, for example, on remarketing arrangements in the context of municipal bonds (see, e.g., Wolf, p. 1) instead of financial instruments consisting of fixed income instruments with predetermined remarketing dates and forward purchase contracts. Consequently, the Wolf article fails to teach or suggest a financial instrument consisting of a fixed income instrument with a predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

The "Tax consequences of business and investment-driven uses of derivatives" article (Freeman et al.) discusses tax consequences of business and investment use of derivatives. The article discusses, for example, use of forward contracts and use of DECS in the form of preferred stock or debt exchangeable into shares of stock . Thus, while the Freeman et al. article discusses forward contracts and DECS, the Freeman et al. article fails to teach or suggest a financial instrument consisting of a fixed income instrument with a predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

The "Raising debt at a cost below prevailing market rates" article (International Tax Review) discusses variations on DECS, such as ACES and PRIDES. According to the article, ACES consists of a forward contract on the issuer's stock and an undivided interest in Treasury notes maturing on the maturity date of the forward contract and giving the investor the right to accelerate the forward contract and receive back its share of the Treasuries, and PRIDES combines a forward contract with an actual loan to the issuer in place of the Treasury notes. See, e.g., International Tax Review, p. 5-6. Thus, while the International Tax Review article discloses use of forward contracts and Treasury notes, the International Tax Review article fails to teach or suggest a financial instrument consisting of a fixed income instrument with a predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

The "Do You Have Derivatives Lurking in Your Hybrids?" article (Wallace) discusses, for example, specific equity-linked bonds, leveraged embedded terms, prepaid forwards, and debt with a put option linked to S&P 500 as examples of host contracts with embedded derivates. See, e.g., Wallace, p. 7-9. While the Wallace article discusses, for example, forward contracts, Wallace fails to teach or suggest a financial instrument

consisting of a fixed income instrument with a predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

The "FSA forgoes Conventional Wisdom in Characterizing A Remarketing Payment Under a Callable/Puttable Bond" article (Ricks) discusses tax treatment of a payment made by a bank for the right to purchase and remarket a callable/puttable bond. See, e.g., Ricks, p. 168-169. While the Ricks article discusses, for example, remarketable or redeemable securities, puttable reset securities, and mandatory puttable/redeemable securities, Ricks fails to teach or suggest a financial instrument consisting of a fixed income instrument with a predetermined remarketing date, a forward purchase contract to purchase one or more equity shares, and an acceleration trigger clause that redesignates the remarketing date to an earlier date on the happening of a predetermined event, as claimed in the present invention.

7. The undersigned attorney for the Applicant declares that all statements made herein are true or, if made on information or belief, are believed to be true and further that these statements are made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under 18 U.S.C. 1001, and that such willful false statements may jeopardize the validity of this document and of the patent application to which it relates.

Respectfully submitted,

Date: 2/1/05

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